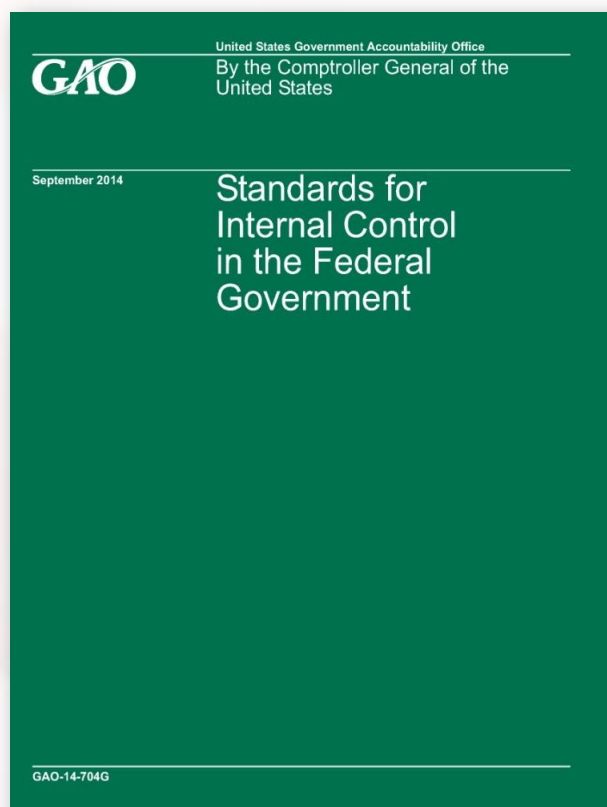


What's New in Government Internal Control Standards?



Going Green

FAEC Contracting Committee Seminar

Session Objective

- To discuss GAO's revision to the *Standards for Internal Control in the Federal Government* (Green Book)

What's in Green Book for the Federal Government?

- Reflects federal internal control standards required per Federal Managers' Financial Integrity Act (FMFIA)
- Serves as a base for OMB Circular A-123
- Written for government
 - Leverages the COSO Framework
 - Uses government terms

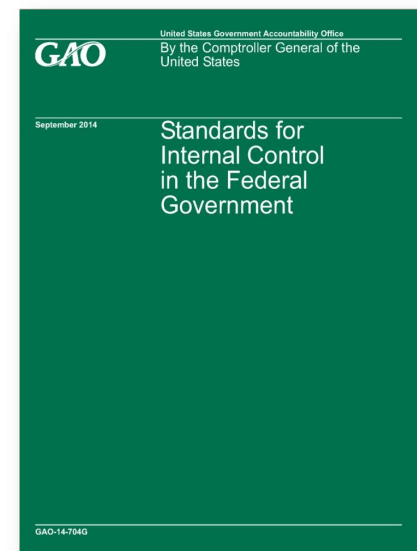
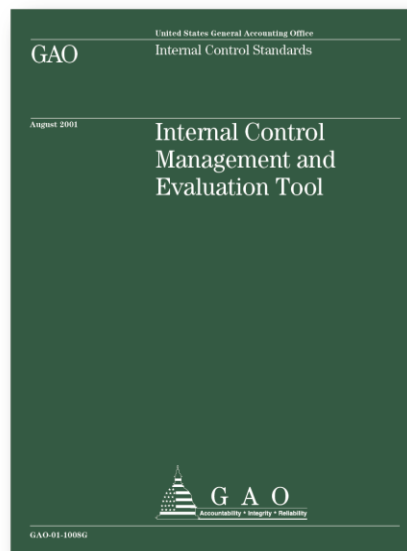
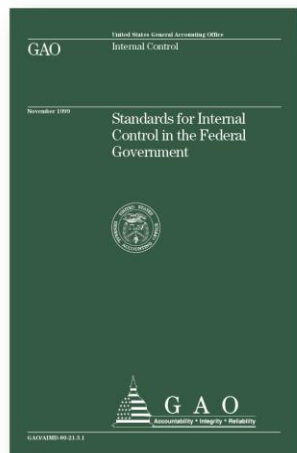
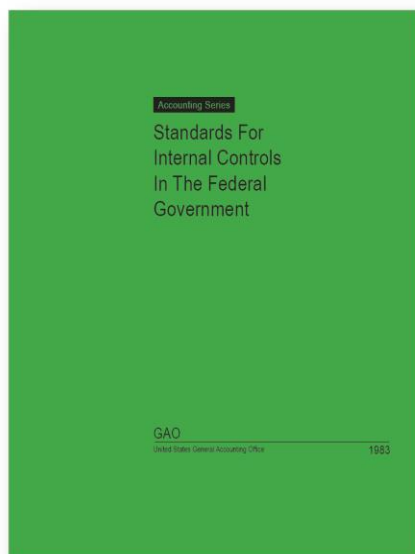
What's in Green Book for State and Local Governments?

- May be an acceptable framework for internal control on the state and local government level under OMB's Uniform Guidance for Federal Awards
- Written for government
 - Leverages the COSO Framework
 - Uses government terms

What's in Green Book for Management and Auditors?

- Provides standards for management
- Provides criteria for auditors
- Can be used in conjunction with other standards, e.g. Yellow Book

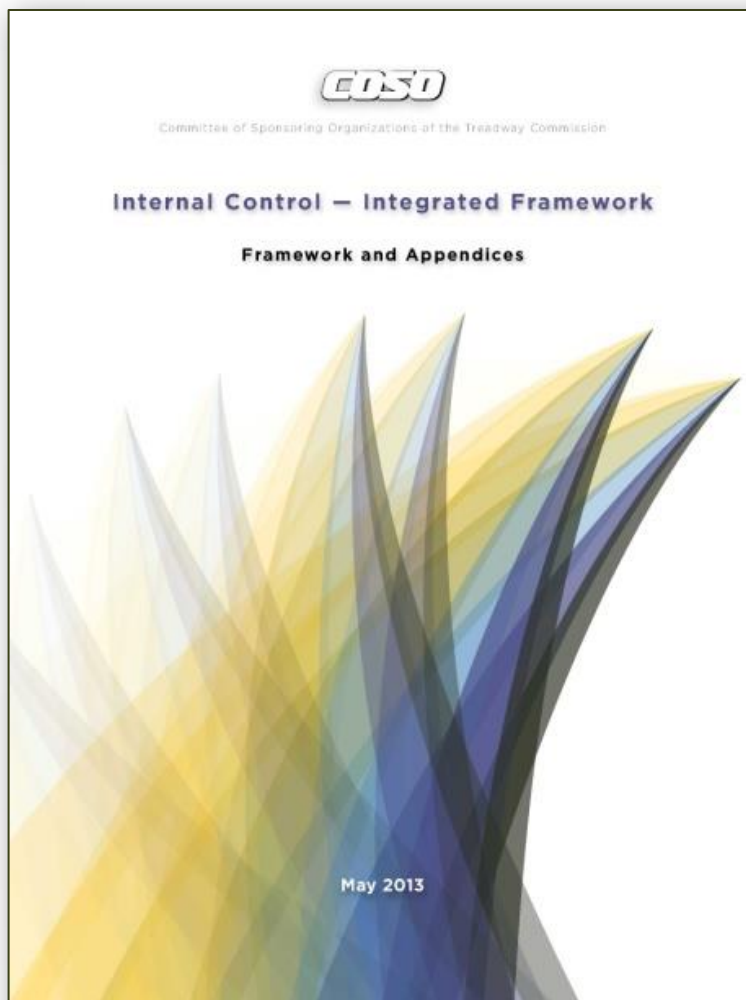
Green Book Through the Years



1983

→ Present

Updated COSO Framework



**Released
May 14, 2013**

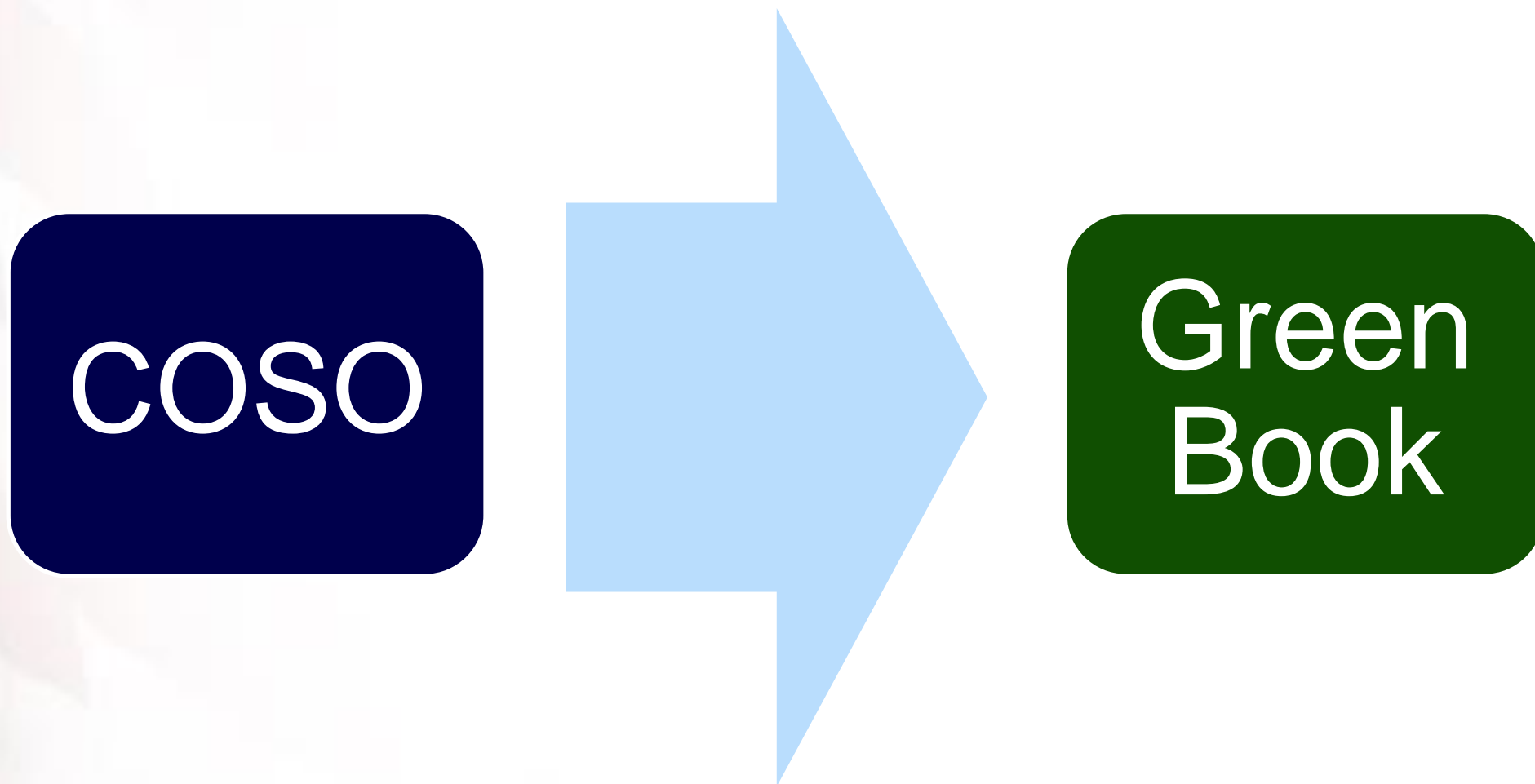
The COSO Framework

- Relationship of Objectives and Components
 - Direct relationship between objectives (which are what an entity strives to achieve) and the components (which represent what is needed to achieve the objectives)
- COSO depicts the relationship in the form of a cube:
 - Three objectives: columns
 - Five components: rows
 - Organizational structure: third dimension



Source: COSO

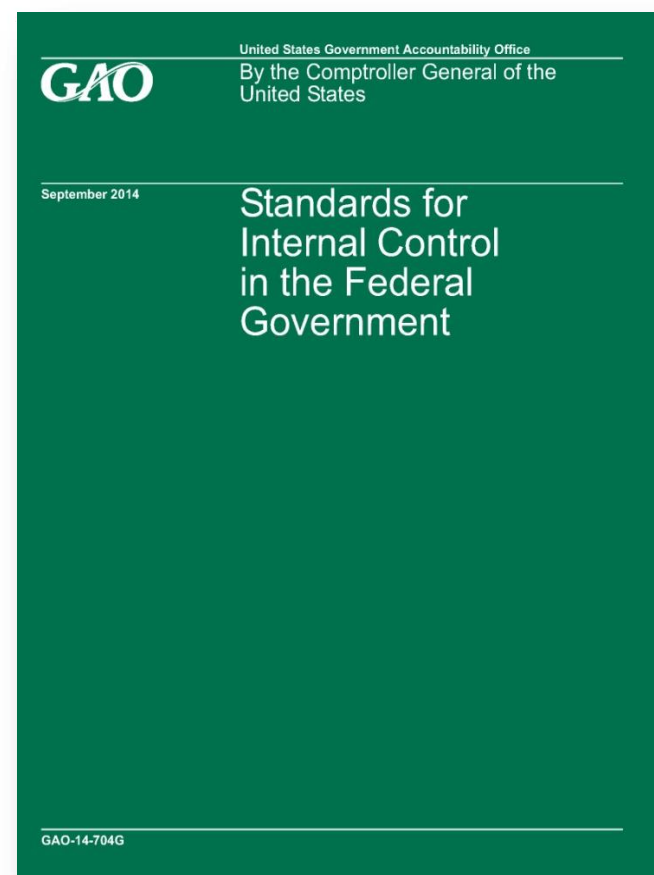
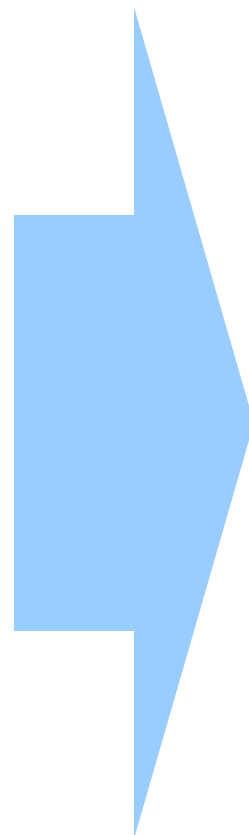
From COSO to Green Book: Harmonization



Revised Green Book: Standards for Internal Control in the Federal Government

Overview

Standards



Revised Green Book: Overview

- Explains fundamental concepts of internal control
- Addresses how components, principles, and attributes relate to an entity's objectives
- Discusses management evaluation of internal control
- Discusses additional considerations

Overview

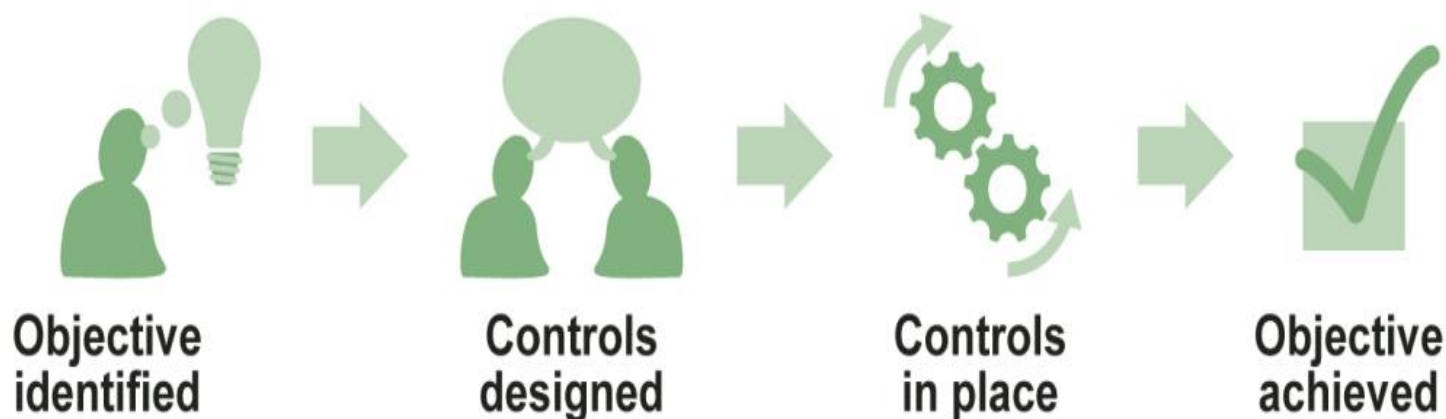
Standards

Fundamental Concepts

- What is internal control in Green Book?
 - OV1.01 Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.
- What is an internal control system in Green Book?
 - OV1.04 An internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity's objectives will be achieved.

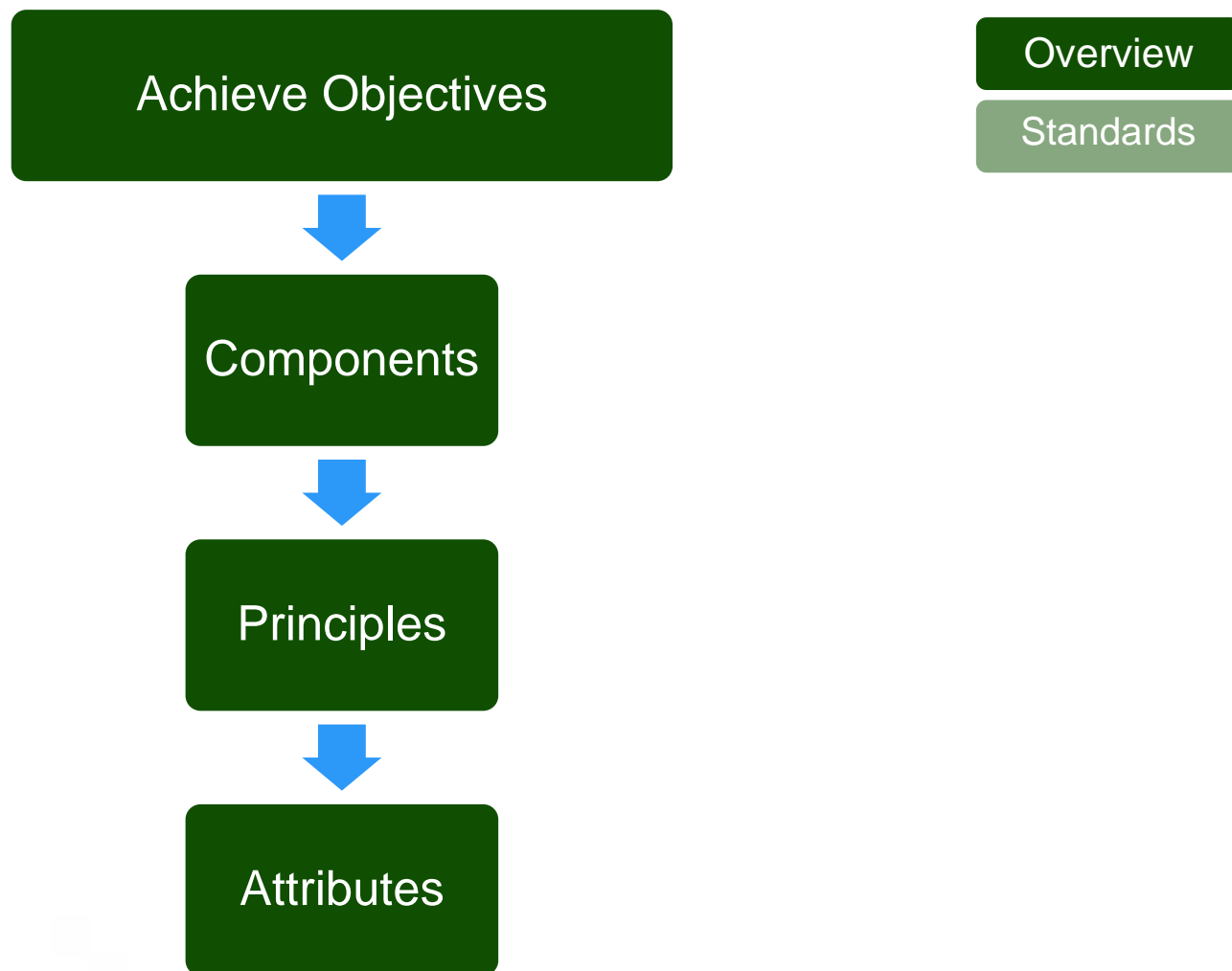
Fundamental Concepts (cont.)

Put simply, internal control is a process to help entities achieve objectives.



Source: GAO. | GAO-14-704G

Overview: Components, Principles, and Attributes



Revised Green Book: Principles

Control Environment

1. Demonstrate Commitment to Integrity and Ethical Values
2. Exercise Oversight Responsibility
3. Establish Structure, Responsibility, and Authority
4. Demonstrate Commitment to Competence
5. Enforce Accountability

Risk Assessment

6. Define Objectives and Risk Tolerances
7. Identify, Analyze, and Respond to Risk
8. Assess Fraud Risk
9. Analyze and Respond to Change

Control Activities

10. Design Control Activities
11. Design Activities for the Information System
12. Implement Control Activities

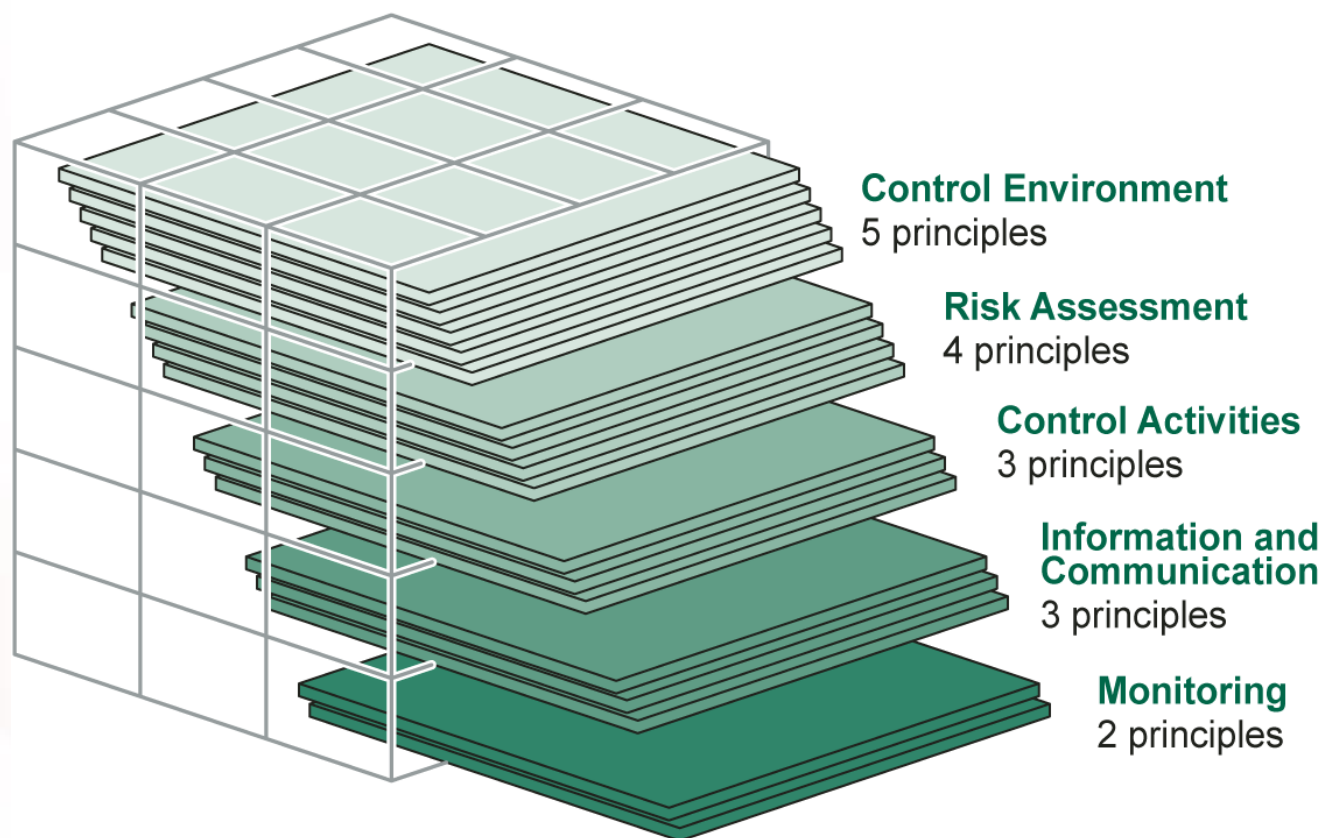
Information & Communication

13. Use Quality Information
14. Communicate Internally
15. Communicate Externally

Monitoring

16. Perform Monitoring Activities
17. Remediate Deficiencies

Components and Principles



Source: GAO. | GAO-14-704G

Component, Principle, Attribute

Component

Control Environment

Principle

The oversight body
and management should
demonstrate a commitment
to integrity and ethical values

Attributes

Set the Tone
at the Top

Establish
standards
of conduct

Evaluate
adherence to
standards of conduct

Overview: Components and Principles

- In general, all components and principles are required for an effective internal control system
- Entity should implement relevant principles
- If a principle is not relevant, document the rationale of how, in the absence of that principle, the associated component could be designed, implemented, and operated effectively

[Overview](#)[Standards](#)

OV2.05: The 17 principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system.

Overview: Attributes

- Attributes are considerations that can contribute to the design, implementation, and operating effectiveness of principles

[Overview](#)[Standards](#)

OV2.07 excerpt: The Green Book contains additional information in the form of attributes. . . Attributes provide further explanation of the principle and documentation requirements and may explain more precisely what a requirement means and what it is intended to cover, or include examples of procedures that may be appropriate for an entity.

Overview: Management Evaluation

An effective internal control system requires that each of the five components are:

Overview

Standards

- Effectively designed, implemented, and operating
- Operating together in an integrated manner

Management evaluates the effect of deficiencies on the internal control system

A component is not effective if related principles are not effective

Overview: Additional Considerations

The impact of service organizations on an entity's internal control system

Overview

Standards

Discussion of documentation requirements in the Green Book

Applicability to state, local, and quasi-governmental entities as well as not-for-profits

Cost/Benefit and Large/Small Entity Considerations

Revised Green Book: Standards

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

[Overview](#)[Standards](#)

Revised Green Book: Standards

- Explains principles for each component

Overview

Standards

- Includes further discussion of considerations for principles in the form of attributes

Control Environment

Control Environment

1. Demonstrate Commitment to Integrity and Ethical Values
2. Exercise Oversight Responsibility
3. Establish Structure, Responsibility, and Authority
4. Demonstrate Commitment to Competence
5. Enforce Accountability

Risk Assessment

Risk Assessment

- 6. Define Objectives and Risk Tolerances
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Information & Communication

Information & Communication

- 13. Use Quality Information
- 14. Communicate Internally
- 15. Communicate Externally

Monitoring

Monitoring

- 16. Perform Monitoring Activities
- 17. Remediate Deficiencies

Controls Across Components

Controls
embedded
in other
components
may effect
this principle

Control Environment

Human Resources review employee's confirmations to assess whether standards of conduct are understood and adhered to by staff across the entity

Information & Communication

Management obtains and reviews data and information underlying potential deviations captured in whistleblower hotline to assess quality of information

Monitoring

Internal Audit separately evaluates Control Environment, considering employee behaviors and whistleblower hotline results and reports thereon

Principle

1. The organization demonstrates a commitment to integrity and ethical values

Component

Control Environment

Documentation Requirements

- Excerpt from OV2.06: If management determines a principle is not relevant, management supports that determination with documentation that includes the rationale of how, in the absence of that principle, the associated component could be designed, implemented, and operated effectively.

Documentation Requirements (cont.)

- Control Environment
 - 3.09: Management develops and maintains documentation of its internal control system.

- Control Activities
 - 12.02: Management documents in policies the internal control responsibilities of the organization.

Documentation Requirements (cont.)

- Monitoring
 - 16.09: Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues.
 - 17.05: Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis.
 - 17.06: Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis.

Accessibility of Green Book

- Comments raised during exposure identified new need:
 - How do we make the Green Book more accessible to our user community?

The Green Book Layout

- Changed the layout of the Green Book itself to make it more user friendly:
 - Introduced a highlights page
 - Facsimile page
 - Graphics throughout the overview and standards

Highlights Page

What is the Green Book and how is it used?

Important facts and concepts related to the Green Book and internal control

Internal control and the Green Book

What is internal control?

Internal control is a process used by management to help an entity achieve its objectives.

How does internal control work?

Internal control helps an entity

- Run its operations efficiently and effectively
- Report reliable information about its operations
- Comply with applicable laws and regulations

How is the Green Book related to internal control?

Standards for Internal Control in the Federal Government, known as the Green Book, sets internal control standards for federal entities.

How does an entity use the Green Book?



An entity uses the Green Book to design, implement, and operate internal controls to achieve its objectives related to operations, reporting, and compliance.

Who would use the Green Book?

- A program manager at a federal agency
- Inspector general staff conducting a financial or performance audit
- An independent public accountant conducting an audit of expenditures of federal dollars to state agencies
- A compliance officer responsible for making sure that personnel have completed required training

The cube

The standards in the Green Book are organized by the five components of internal control shown in the cube below. The five components apply to staff at all organizational levels and to all categories of objectives.



Principles

Each of the five components of internal control contains several principles. Principles are the requirements of each component.

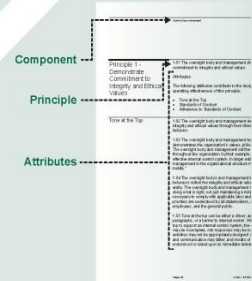


Attributes

Each principle has important characteristics, called attributes, which explain principles in greater detail.

Page structure

Green Book pages show components, principles, and attributes.

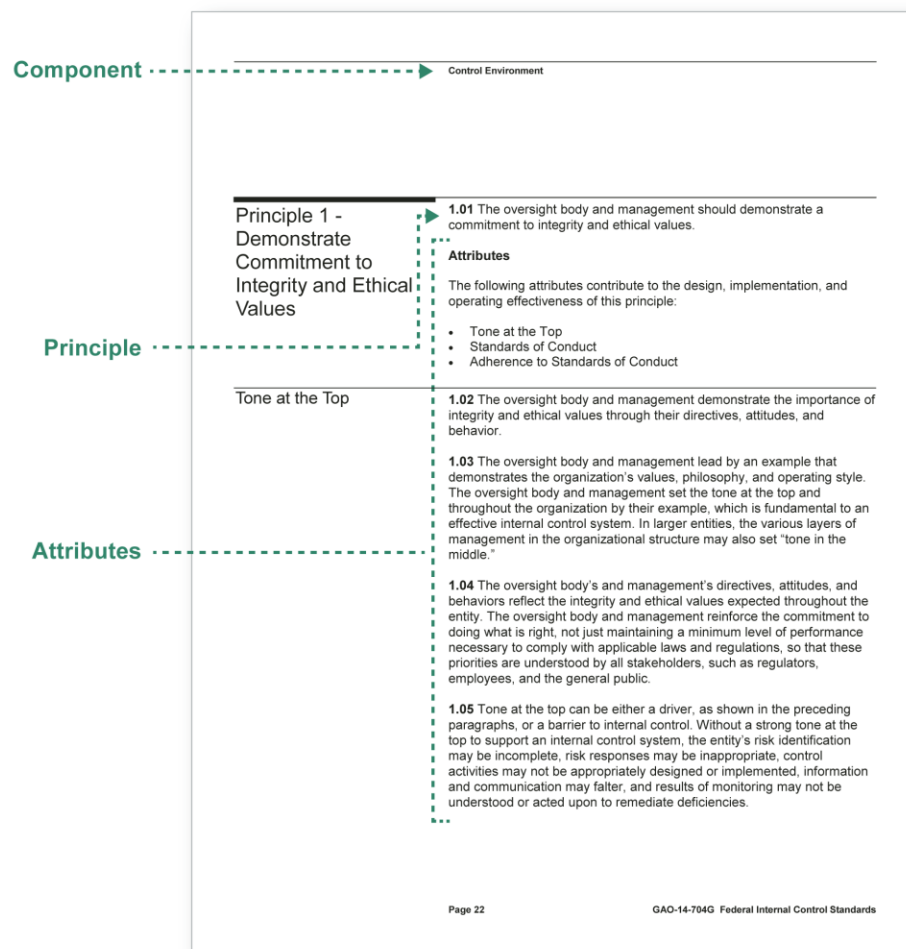


Sources: GAO and COSO.

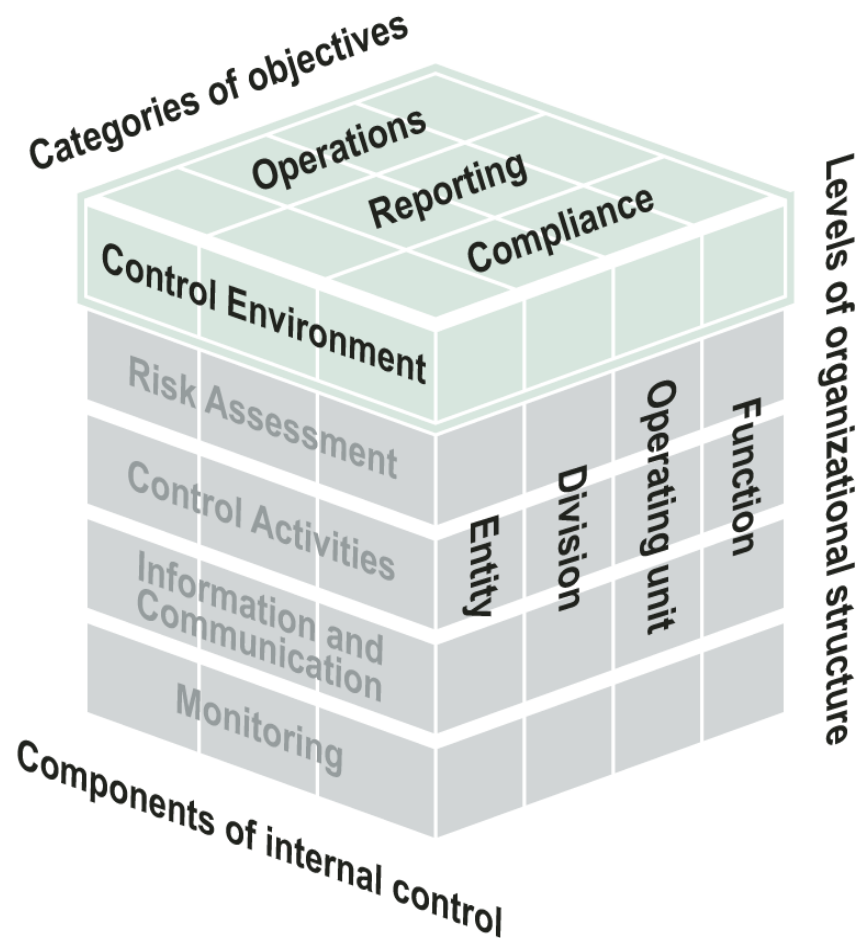
GAO.GOV/GREENBOOK

GAO-14-704G

Facsimile Page



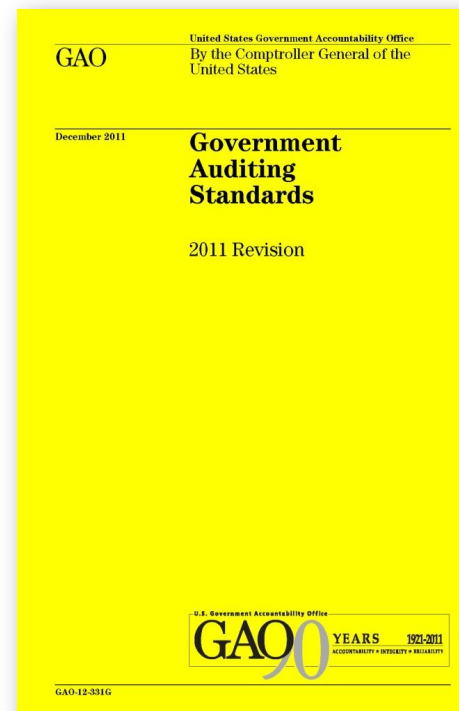
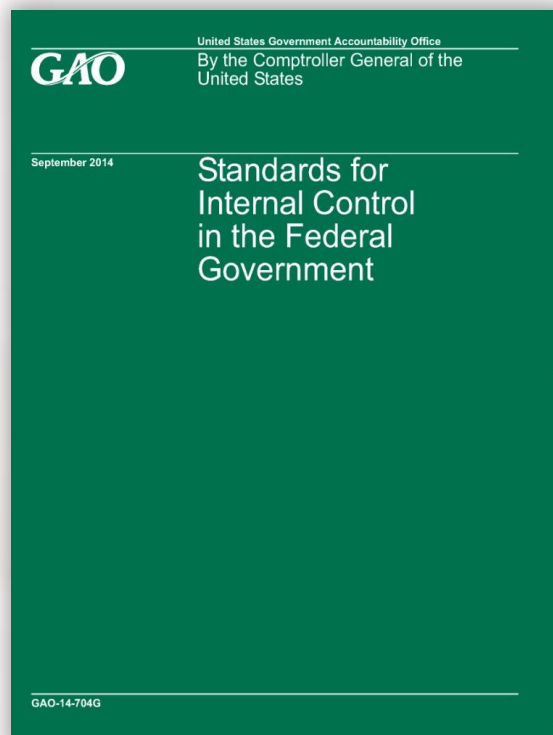
Cube as Navigation Aid



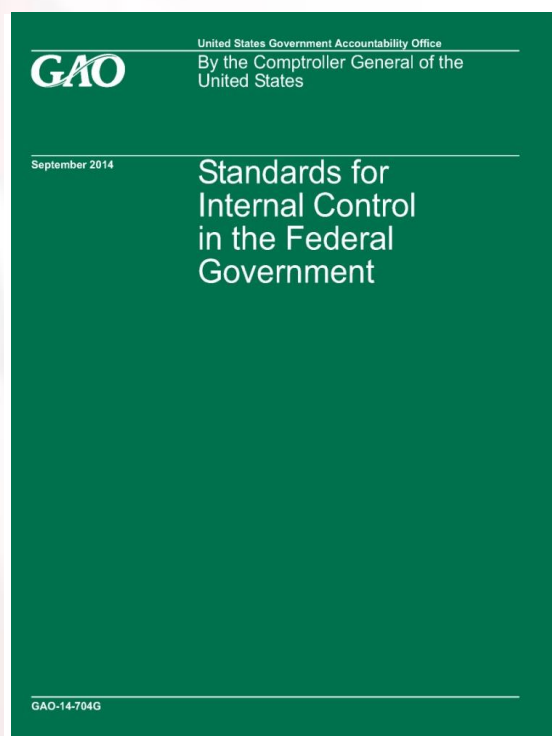
Sources: COSO and GAO. | GAO-14-704G

The Green Book in Action

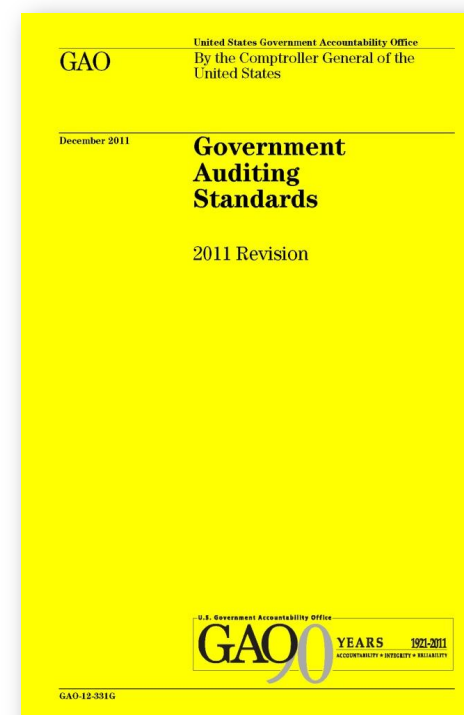
- Relationship between the Green Book and Yellow Book



Green Book and Yellow Book

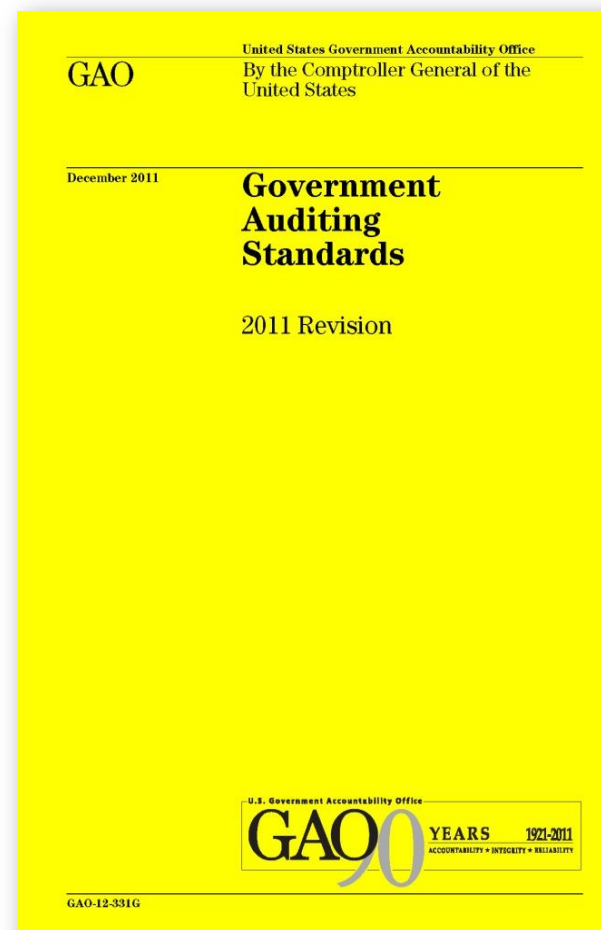


- Can be used by management to understand requirements
- Can be used by auditors to understand criteria

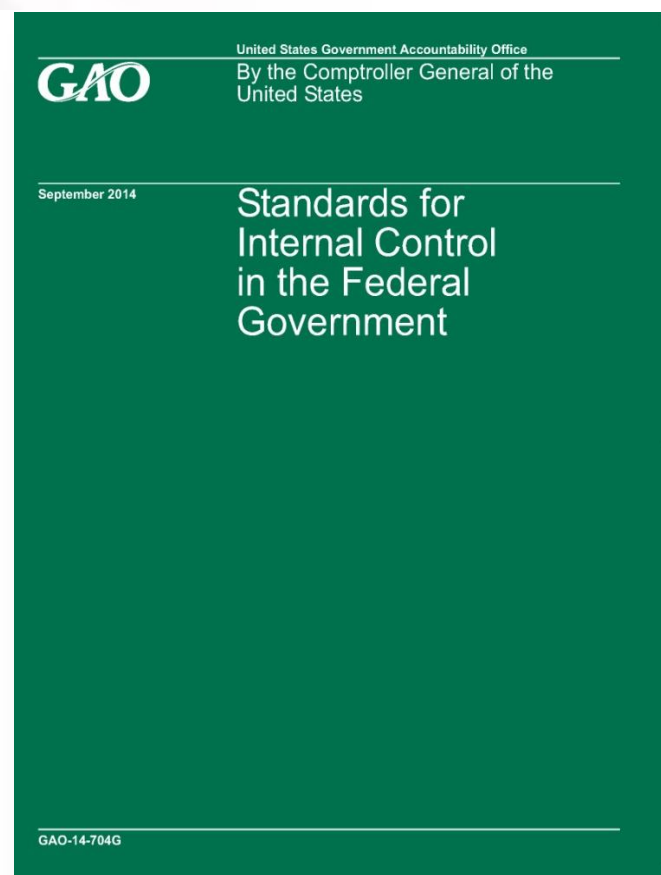


The Yellow Book: Framework for Audits

- Findings are composed of:
 - Condition (What is)
 - **Criteria (What should be)**
 - Cause
 - Effect (Result)
 - Recommendation (as applicable)



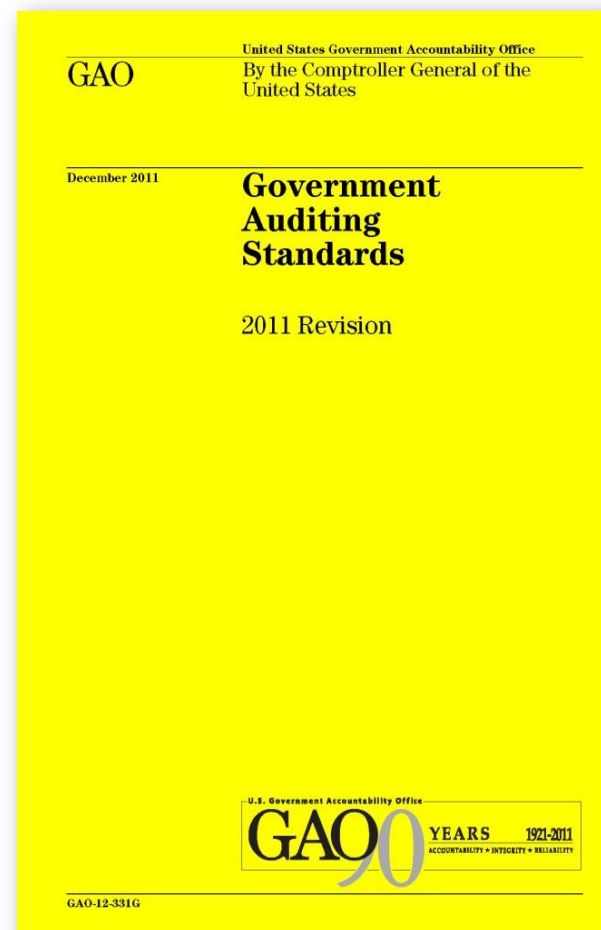
Linkage Between Criteria (Yellow Book) and Internal Control (Green Book)



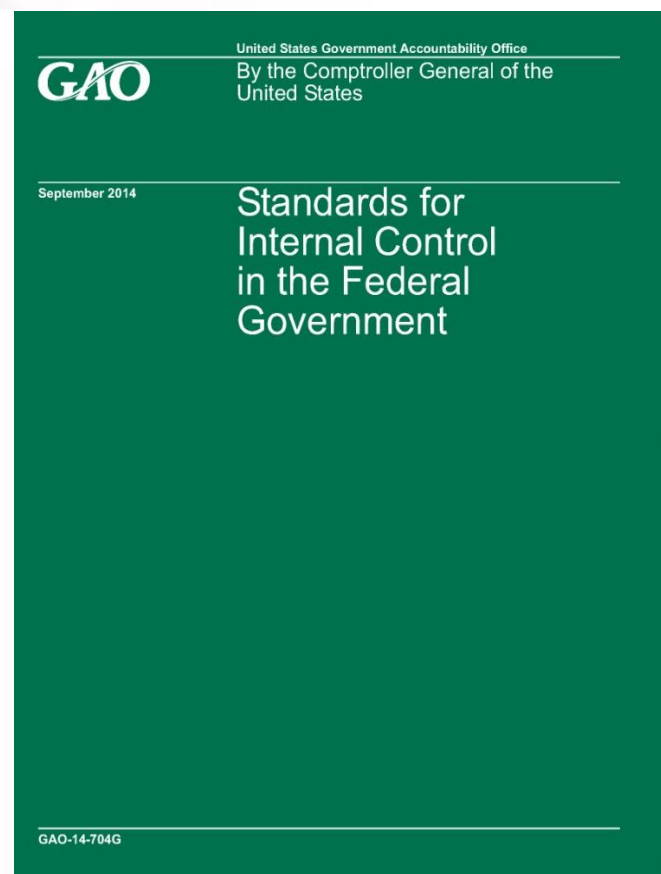
- Green Book provides criteria for the design, implementation, and operating effectiveness of an effective internal control system

The Yellow Book: Framework for Audits

- Findings are composed of:
 - Condition (What is)
 - Criteria (What should be)
 - **Cause**
 - Effect (Result)
 - Recommendation (as applicable)



Linkage Between Findings (Yellow Book) and Internal Control (Green Book)



- Findings may have causes that relate to internal control deficiencies

Effective Date

- Green Book effective beginning fiscal year 2016 and for the FMFIA reports covering that year
- Management, at its discretion, may elect early adoption of the Green Book

Where to Find Us

- The Yellow Book is available on GAO's website at:
www.gao.gov/yellowbook
- The Green Book is available on GAO's website at:
www.gao.gov/greenbook
- For technical assistance, contact us at:
yellowbook@gao.gov or greenbook@gao.gov
or call (202) 512-9535



Thank You

Questions?



U.S. GOVERNMENT ACCOUNTABILITY OFFICE